BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA, AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA,AMERICAN RELIABLE INSURANCE COMPANY, AMERICAN SECURITY INSURANCE COMPANY, STANDARD GUARANTY INSURANCE COMPANY, UNION SECUIRTY LIFE INSURANCE COMPANY, VOYAGER LIFE INSURANCE COMPANY, AND VOYAGER PROPERTY AND CASULATY INSURANCE COMPANY Respondents.	File No. UPA 2007-00011 File No. NC02020030 OAH No. 2007120261 **STIPULATION AND WAIVER**

Respondents AMERICAN BANKERS LIFE ASSURANCE COMPANY OF FLORIDA, AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA, AMERICAN RELIABLE INSURANCE COMPANY, AMERICAN SECURITY INSURANCE COMPANY, STANDARD GUARANTY INSURANCE COMPANY, UNION SECURITY LIFE INSURANCE COMPANY, VOYAGER LIFE INSURANCE COMPANY, and VOYAGER PROPERTYAND CASUALTY INSURANCE

COMPANY ("Respondents") and the California Department of Insurance ("Department") stipulate as follows:

WHEREAS, Respondents currently are, or were holders of certificates of authority to transact insurance business in California during the period of the Claims Examination Report or the Rate Examination Report; and,

WHEREAS, the Commissioner completed a report of its examination of Respondents' claims handling practices (the "Claims Examination Report"), which reports covers the period June 1, 2004 through May 31, 2005; and,

WHEREAS, the Commissioner completed a report of its examination of Respondents' rating practices (the "Rate Examination Report"), which reports covers the period January 1, 2002 through November 15, 2003; and,

WHEREAS, Union Security Life Insurance Company and Voyager Life Insurance Company merged into American Bankers Life Assurance Company of Florida subsequent to the Rating Examination Report and before the date of this Stipulation and Waiver; and

WHEREAS, on May 22, 2007, the Department issued an "Order to Show Cause and Statement of Charges; Notice of Monetary Penalty" (the "OSC") under file number UPA 2007-00011; and

WHEREAS, Respondents have denied the allegations of the OSC, but acknowledge that those allegations, if proven to be true, constitute grounds for the Commissioner to impose a civil penalty and issue an order to Respondents to cease and desist from engaging in those methods, acts, or practices found to be unfair or deceptive pursuant to the provisions of the Insurance Code of the State of California; and

WHEREAS, the Department and Respondents have discussed Respondents' response to the Claims Examination Report and the Rate Examination Report and Respondents' compliance with certain provisions of the Code and the Department's regulations, including the specific allegation in the OSC; and,

WHEREAS, Respondents have implemented various measures to ensure compliance with the Code and Regulations; and,

WHEREAS, the Department and Respondents believe that it is in the public interest to resolve all matters raised by the Claims Examination Report, the Rate Examination Report and the OSC without the need for a formal hearing or any further administrative action;

THEREFORE, with respect to the matters stated herein, Respondents and the Department agree as follows:

A. Respondents waive its rights to a hearing and any and all rights that Respondents may be entitled to pursuant to Chapter 5, Part 1, Division 3, Title 2 of the California Government Code.

B. Respondents agree that in lieu of disciplinary action against its Certificates of Authority, the Commissioner, by his written order to be made and filed herein, and without further notice to Respondents, orders that Respondents cease and desist from engaging in any such methods, acts or practices as are violative of CIC Sections 779.19 790.03(h), 880, 1872.4, and 10172.5 and CCR Sections 2695.3, 2695.4, 2695.5, 2695.6, 2695.7 and 2695.11, including all specific allegations made in the OSC.

C. Respondents further agree to undertake all audits and reports outlined in Exhibit A, which is attached and incorporated herein.

D. Respondents will provide a final report with all audit results related to paragraph C., above by January 31, 2009, along with a corrective action plan for any deficiencies identified during the audit. Respondents will also provide the Department with monthly updates on its audit progress beginning October 30, 2008. All audit reports should be forwarded to Joel Laucher, Market Conduct Division, 45 Fremont Street, 22nd Floor, San Francisco, Ca 94105

E. Respondents further agree that in lieu of disciplinary action against its Certificate of Authority, and in resolution of the Department's claims under California Insurance Code Sections 704, 790.03 and 790.035, Respondents shall pay to the State of California as civil penalties: $500,000 for the Claims Examination and $250,000 for the Rate Examination. The respective penalties shall be allocated equally among the Respondents, or their successor, as identified on the examinations.

F. All payments shall be made within thirty (30) days of receipt of an invoice from the Department. Payment shall be

mailed to California Department of Insurance, Division of Accounting, 300 Capital Mall, 13th Floor, Sacramento, CA 95814.

G. Respondents acknowledges that, if it violates any of the terms or conditions of this Stipulation and Waiver, the Insurance Commissioner may bring disciplinary action against Respondents to enforce its terms in such manner as authorized by law.

H. The Department agrees not to examine any files dated before December 31, 2008 for the specific violations covered by this Agreement and will not initiate any claims or rate exam until 2010.

I. Respondents acknowledge that, insofar as the future application of Section 790.07 of the California Insurance Code is concerned, the Order provided for herein shall have the same force and effect as if imposed after a hearing held pursuant to Section 790.05 of the California Insurance Code.

J. Respondents and the Department agree that this Stipulation and Waiver represents a complete resolution of the issues raised in the OSC referenced above. This Agreement is not intended and may not be construed to limit the authority of the Department to investigate and take appropriate action, including bringing an administrative enforcement action with claim for penalties, against the Companies with regard to a consumer or provider complaint.

K. Respondents acknowledges that this Stipulation and Waiver is a public record under California Government Code Section 11517(d), and that it and any order issued pursuant thereto is accessible to the public pursuant to California Public Records Act, California Government Code Section 6250 et seq. Pursuant to California Insurance Code Section 12968 the Stipulation will also be posted on the Department's internet web site.

L. Respondents acknowledges that California Insurance Code Section 12921 requires the Insurance Commissioner to approve the final settlement of this matter, and that both the settlement terms and conditions contained herein and the acceptance of those terms and

conditions are contingent upon the Commissioner's personal approval.

Dated: October 31, 2008

RESPONDENTS

By: Russell G. Kirsch
Print Name: Russell G. Kirsch,
Title: Senior Vice President

Dated: November 19, 2008

California Department of Insurance

By: /s/
Teresa Campbell, Senior Staff Counsel

EXHIBIT A

See attached California Audit Plan --Claims Practices
See attached California Audit Plan – Rating and Underwriting Practices

California Audit Plan – Claims Practices

	CRITICISMS	AUDIT PLAN	RESULTS
1.	The Company failed to pursue diligently an investigation of a claim, or persisted in seeking information not reasonably required for or material to resolution of a claim dispute. In one instance, ABLAC persisted in asking for signed authorization which was already in the claim file. The Department alleges this act in violation of CCR §2695.7 (d)	Chargegard Disability: (ABLAC) Select fifty (50 random claim files open more than thirty days. Verify all requested items are material to the resolution of the claim.	
2.	The Company failed to acknowledge notice of claim within 15 calendar days. In one instance, ABLAC failed to acknowledge notice of claim within 15 calendar days. The Department alleges this act is in violation of CCR §2695.5 (e)(1)	Chargegard Life: (ABLAC) Select fifty (50) random claims files open more than twenty days. Confirm that all claims were acknowledged within fifteen calendar days.	
3.	The Company failed to respond to communications within 15 calendar days. In one instance, ABLAC failed to acknowledge a letter within 15 calendar days. The Department alleges this act is in violation of CCR §2695.5 (b)	Voyager Disability: (ABLAC) Select fifty (50) random claim files. Confirm that all correspondence is acknowledged within fifteen calendar days.	

	CRITICISMS	AUDIT PLAN	RESULTS
4.	The Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. In one instance due to a system coding error, reference to the California Department of Insurance was omitted from denial letter. The Department alleges this act is in violation of CCR §2695.7 (b)(3)	Voyager Disability: (ABLAC) Identify all 2008 claim denials. Select fifty (50) random files and confirm notice of the insured's right to have the matter reviewed by the California Department of Insurance has been provided.	
5.	The Company attempted to settle a claim by making a settlement offer that was unreasonably low. In two instances, the retroactive elimination period was overlooked resulting in an under payment of benefits. The Department alleges these acts are in violation of CCR §2695.7 (g)	Voyager Disability: (ABLAC) Identify all disability claims for 2008. Select fifty (50) random files and confirm the retroactive elimination period was properly applied.	
6.	In two instances, the Company failed to provide to the claimant an explanation of benefits including the name of the provider or services covered, dates of service, and a clear explanation of the computation of benefits. The Department alleges these acts are in violation of CCR §2695.11 (b)	Voyager Disability: (ABLAC) Select fifty (50) random claim files from 2008. Confirm all files contain clear explanation of benefits letters.	

	CRITICISMS	AUDIT PLAN	RESULTS
7.	In one instances, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Department alleges this act is in violation of CCR §2695.7 (b)	Chargegard Unemployment: (ABLAC) Select fifty (50) random files open for more than forty days. Determine whether the Company failed to approve or deny any claims within forty calendar days of receiving proper proof of claim.	
8.	The Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. In two instances, due to a system coding error reference to the California Department of Insurance was omitted from denial letter. The Department alleges these acts are in violation of CCR §2695.7 (b) (3)	Chargegard Unemployment: (ABIC) Select fifty (50) random files from all claim denials. Confirm notice of the insured's right to have the matter reviewed by the California Department of Insurance has been provided.	
9.	In 27 instances, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. ABIC failed to reveal to the insured/certificate holder the amount paid on the claim to the retailer. The Department alleges these acts are in violation of CCR §2695.4(a)	Credit Retail Property: (ABIC) Revise claims procedures to produce letter to the insured 1) documenting the claim payment to the creditor,	

	CRITICISMS	AUDIT PLAN	RESULTS
		2) informing the insured of the right to the replacement product, and 3) instructing the insured to contact the company if there is any problem receiving the replacement item. Audit procedure change in December 2008.	
10.	In 26 instances, the Company failed to maintain all documents, notes and work papers in the claim file. ABIC Credit Retail Property files lacked documentation in support of the value paid on claims. The Company pays whatever amount the retailer writes on Notice of Claim/Proof of Claim. The Notice of Claim/Proof of Claim is one single document. The examiners could not determine whether the proper amount was allowed or that the certificate holder received replacement product. The Department alleges these acts are in violation of CCR §2695.3(a)	Credit Retail Property: (ABIC) Revise claims procedures to require retailer documentation of loss amount. Revise claim procedures to require additional company review of claims meeting certain criteria. Audit procedure changes in December 2008.	
11.	In four instances, the Company's claims agent failed to immediately transmit notice of claim to the insurer. The Creditor or Retailer is normally the first point of contact and gathers all information in relationship to the claim prior to submitting to ABIC. The files lacked documentation as to the date the Creditor or Retailer received notice of claim. Four claims were reported more than 85	Credit Retail Property: (ABIC) Create list of all active retail partners. Pull fifteen (15) random files per retail partner and confirm timely	

	CRITICISMS	AUDIT PLAN	RESULTS
	days after the date of loss. The Department alleges these acts are in violation of CCR §2695.5(d)	submission of claims. Revise procedures to document date of creditor's receipt of claim.	
12.	In one instance, the Company failed to provide the written basis for the denial of the claim. The Department alleges this act is in violation of CCR §2695.7(b) (1).	Credit Retail Property: (ABIC) From list of denied claims, select fifty (50) random files and confirm each file contains a proper denial letter.	
13.	The Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. In five instances, due to an ABIC system coding error reference to the California Department of Insurance was omitted from denial letter. The Department alleges these acts are in violation of CCR §2695.7(b) (3).	Credit Retail Property: (ABIC) From list of denied claims, select fifty (50) random files and confirm insured was sent notice of right to have claim reviewed by California Department of Insurance.	
14.	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under its insurance policies. In two instances, the ABIC claim file has unexplained gaps of 4 months in claim handling. The Department alleges these acts are in violation of CIC §790.03(h) (3).	Credit Retail Property: (ABIC) Select fifty (50) random claim files and confirm inclusion of complete notepad/claims history in file.	

	CRITICISMS	AUDIT PLAN	RESULTS
15.	In two instances, the Company failed to maintain claim data that are accessible, legible and retrievable for examination. The Department alleges these acts are in violation of CCR §2695.3(b) (1).	Mobile Homeowners: (ABIC) Select fifty (50) random claim files and confirm access and availability of complete claims records.	
16.	In 12 instances, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. ABIC failed to explain replacement cost coverage. The Department alleges these acts are in violation of CCR §2695.4(a).	Mobile Homeowners: (ABIC) Select fifty (50) random claim files with payments and confirm proper disclosure of recoverable depreciation.	
17.	In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Department alleges this act is in violation of CCR §2695.7(b).	Mobile Homeowners: (ABIC) Run report of mobile home claims that remained open more than forty days. Select fifty (50) random files and confirm that company accepted or denied on the claim within forty calendar days of receiving proof of claim.	

	CRITICISMS	AUDIT PLAN	RESULTS
18.	In four instances, the Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR §2695.7(b) (3).	Mobile Homeowners: (ABIC) From a list of claim denials, select fifty (50) random files and confirm inclusion of the insured's right to have the claim reviewed by the California Department of Insurance.	
19.	The Company attempted to settle a claim by making a settlement offer that was unreasonably low. In one instance, the Company applied depreciation to labor costs and in another file the Company withheld depreciation contrary to the terms of the policy. The Department alleges this act is in violation of CCR §2695.7(g).	Mobile Homeowners: (ABIC) Select fifty (50) random claim files and confirm proper treatment of depreciation.	
20.	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under its insurance policies. In one instance, the Company failed to inspect the damaged property before closing the claim. The Department alleges this act is in violation of CIC §790.03(h) (3).	Mobile Homeowners: (ABIC) Select fifty (50) random claim files and confirm proper damage inspections are included in the claim files.	
21.	The Company failed to provide thorough and adequate training regarding these regulations to all its claim agents. The Company failed to verify and provide training to one Third Party Administrator. The Department alleges this act is in violation of	Renters: (ABIC) Check and verify training records for every claims agent/TPA.	

	CRITICISMS	AUDIT PLAN	RESULTS
	CCR §2695.6(b).		
22.	The Company failed to maintain a copy of the certification required by §2695.6(b)(1), (2), or (3) at the principal place of business. The Department alleges this act is a violation of CCR §2695.6(b)(4).	Renters: (ABIC) Check and verify training records for every claims agent/TPA.	
23.	In three instances, the Company failed to provide the written basis for the denial of the claim. The department alleges these acts are in violation of CCR §2695.7(b)(1).	Renters: (ABIC) Select fifty (50) random files (from denials and closed for lack of response). Confirm that a proper written denial or close letter has been sent to the insured.	
24.	In two instances, the Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR §2695.7(b)(3).	Renters: (ABIC) From a list of denial claims, select fifty (50) random files and confirm inclusion of the insured's right to have the claim reviewed by the California Department of Insurance.	
25.	In three instances, the Company failed to conduct and pursue a thorough, fair, and objective investigation of a claim. The department alleges	Renters: (ABIC) Review procedures and	

	CRITICISMS	AUDIT PLAN	RESULTS
	these acts are in violation of CCR §2695.7(d).	requirements for insureds providing proof of claims. Review company procedures for independently investigating submitted claims.	
26.	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under its insurance policies. In two instances, the Company failed to provide depreciation guide to Third Party Administrator resulting in application of varied depreciation. The Department alleges these acts are in violation of CIC §790.03(h) (3).	Renters: (ABIC) Confirm all TPAs have all appropriate guides and manuals. Review and confirm all training records for TPAs.	
27.	The Company failed to effectuate prompt, fair, and equitable settlements of claims in which liability had become reasonably clear. In two instances, the deductible was mistakenly applied to the claim rather than the loss. The Department alleges these acts are in violation of CIC §790.03(h) (5).	Renters: (ABIC) Select fifty (50) random claim files and re-adjust claim. Confirm proper payment made to the insured.	
28.	In two instances, the Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR §2695.7(b) (3).	Voyager Unemployment: (ABIC) From a list of denials, select fifty (50) random files and confirm all denials included a notice of the insured's right to review by the California Insurance Department.	

	CRITICISMS	AUDIT PLAN	RESULTS
29.	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under its insurance policies. In one instance, there was an unexplained gap in claim handling. The Department alleges this act is in violation of CIC §790.03(h) (3).	Voyager Unemployment: (ABIC) Select fifty (50) random files and confirm accurate and complete notepad/claims history is included with each file.	
30.	The Company allowed the creditor to adjudicate the claim. In 27 instances, ABIC relied on the creditor to adjust claims. The retailer determines the extent of the loss upon receiving notice of a claim. There is no evidence that the customer acknowledged receipt of the replacement item. The Company pays the amount as determined by the retailer-creditor. The Department alleges these acts are in violation of CIC §779.19.	Credit Retail Property: (ABIC) Randomly select fifty (50) files and confirm that only Assurant employees are adjusting claims. Review and revise documentation needed from retailer to establish proof of claim (see item 9). Develop criteria triggering additional investigation of claims. Audit new procedures in December 2008.	
31.	The Company failed to include interest on a claim that was paid beyond 30 days from date of death. In 14 instances, the ABLAC failed to pay interest on a claim that remained unpaid longer than 30 days from the date of death. The Department alleges these acts are in violation of CIC	Credit Life: (ABLAC) Select fifty (50) random files selected from 2007-2008 life claims. Confirm proper interest	

	CRITICISMS	AUDIT PLAN	RESULTS
	§10172.5(a).	has been disclosed and paid.	
32.	The Company failed to notify the beneficiary that interest will be paid and state the specified rate of interest paid on the death benefit. In 14 instances, ABLAC failed to notify the beneficiary that interest will be paid and state the specified rate of interest paid on the death benefit. The Department alleges these acts are in violation of CIC §10172.5(c).	Credit Life: (ABLAC) See criticism 31. Select fifty (50) random files from 2007-2008 life claims. Confirm proper interest has been disclosed and paid.	
33.	The Company failed to conduct business in its own name. In three instances, ABIC third party claim administrator omitted the name of the company on written communications. The Department alleges these acts are in violation of CIC §880.	Renters: (ABIC) Audit TPA by selecting fifty (50) random files to confirm correspondence contains proper disclosure of the underwriting company.	

California Audit Plan – Rating and Underwriting Practices

	CRITICISMS	AUDIT PLAN	RESULTS
1.	ASIC and SGIC market homeowner coverage. While the ASIC program offers more optional coverage extensions, the basic coverage form is the same for both companies. Based on the eligibility guidelines, a risk that qualifies for this higher priced SGIC homeowner policy may also qualify for the lower priced ASIC policy. The examination found that not all qualified risks were placed in the lower priced company. In addition, the examiner was advised that a risk that originally qualified for the higher priced SGIC homeowner policy but at renewal qualified for the ASIC product was not automatically renewed into the lower priced company. If the insured contacted the agent in order to shop, the agent would place the insured into the lower priced company at that time. In addition, the examination found examples of risks placed in SGIC that qualified for ASIC, because the agent did not represent ASIC. The failure to place a risk into the lowest priced company for which it qualifies violates California law and regulations. CIC Section 1861.05(a) and CCR Sections 2360.3 and 2360(4)	• Audit all agencies/partners to confirm they offer both ASIC and SGIC programs and document results • Confirm all agencies/partners underwrite exclusively through Colours and document. • Randomly select fifty (50) files (25 ASIC, 25 SGIC) and manually rate the files to verify they match Colours rating.	
2.	The ASIC and SGIC underwriting guidelines on dwelling fire and homeowner business have minimum insurance to value guidelines. However, the Companies do not have a consistent	• Audit all agencies/partners to confirm all risks and valuations run through Colours/and e 2 value and	

	CRITICISMS	AUDIT PLAN	RESULTS
	methodology for the determining each risk's replacement cost. Each agent that submits business determines the dwelling value based on that agency's insurance to value methodology. Dwelling values on business transferred or referred from other insurers are based on these other insurers' insurance to value methodologies. Business referred directly to the Companies for quotation or when the Companies question the values that were determined by others are evaluated by either a square footage method or an internet system method that is based on building costs from an outside vendor. The use of multiple evaluation methods will result in different insurance values and premiums for similar dwellings. CIC Section 1861.05(a)	compare with written insurance to value for the file. • Randomly select fifty (50) files (multiple agencies) and run through e 2 value and compare with written insurance to value for the file.	
3.	The examination found that the credit life and disability rates for some ABLAC master policyholders were lower than the filed rates. Deviated rates had not been filed with the Department. In addition, ARIC did not provide the examiner evidence that it had filed the credit disability rates it was using as required by law. CIC Section 779.8 and CCR Sections 2248.41 and 2248.43	• Create an inventory of all current/active master policyholders. Pull five (5) files per master policy and confirm that rate charged matches filed rates. • Inventory any current disability business on ARIC paper and pull rate approvals for the same.	

	CRITICISMS	AUDIT PLAN	RESULTS
4.	The examination found inadequate documentation of schedule rating on all hazard insurance master policies written by ASIC. CIC Section 1857 and CCR section 2360.6	• Create an inventory of all hazard insurance master policies. Pull all hazard insurance master policies. Pull all underwriting files to confirm completed schedule rating worksheet is included with each file.	
5.	The examination of the hazard insurance written by ASIC found that no statement describing the California Insurance Guarantee Association (CIGA) or its purpose was being provided to the insureds as required by California Insurance Code. In addition, ASIC and SGIC did not provide the CIGA statement to dwelling fire insureds. CIC section 1063.145	• CIGA surcharge ended in 2003. Consequently, it is not currently subject to audit. However, we will review procedures for implementing CIGA statements if surcharge resumes.	
6.	ABIC offers mobil homeowner coverage. ARIC offers dwelling fire homeowner, and mobile homeowner policies while ASIC and SGIC offer dwelling fire and homeowner policies. The following are the criticisms of the eligibility requirements on these programs. (a) ABIC's mobile homeowner program, ARIC's mobile homeowner, dwelling fire, and homeowner program, and ASIC's and SGIC's dwelling fire programs require referral to the company for approval on risks with certain risk characteristics. The examination found no eligibility guidelines as to when a referred risk was acceptable for coverage.	a) Select fifty (50) random referred risk files for ABIC and manually determine eligibility. (If fifty (50) files are not available because of low frequency, review entire universe.) Confirm whether the risks were evaluated in accordance with our eligibility guidelines. b) Select fifty (50) declinations and confirm whether the risks were evaluated by objective criteria in	

	CRITICISMS	AUDIT PLAN	RESULTS
	(b) ARIC mobile home eligibility guidelines were vague and non-objective. For example, mobile homes were not eligible for coverage if located in "high crime areas". In addition, ARIC's mobile homeowner program renewal eligibility guidelines were vague. The failure to have specific, objective eligibility guidelines may result in the treatment of similar risks dissimilarly in violation of the insurance code. (c) ABIC's mobile homeowners program, ARIC's mobile homeowner, dwelling fire, and homeowner programs, and ASIC's and SGIC's dwelling fire programs have eligibility guidelines in which a risk is unacceptable based solely on the number of claims, type of loss, or size of loss. In addition, ASIC's and SGIC's dwelling fire and homeowner programs have different pricing tiers based on the number of losses. Assurant does not determine whether the loss reflects a condition or hazard that relates to the likelihood of the risk of future loss. The result is eligibility guidelines that do not have a substantial relationship to the insured's loss exposure. For example, an insured may be placed in a higher rating tier or declined for a loss at a location other than the insured location that arose from conditions or hazards not now found at the insured location. Eligibility guidelines should have a substantial relationship to the insured's loss exposure. CIC Section 1861.05(a) and CCR Sections 2360.0(b) and 2360.2	accordance with our eligibility guidelines. c) Select fifty (50) random risks placed in higher rating tiers. Confirm whether risks are being evaluated solely in accordance with eligibility guidelines. d) Review all guidelines to confirm that they are clear and objective.	

	CRITICISMS	AUDIT PLAN	RESULTS
7.	ASIC offers two pricing levels on dwelling fire policies and four pricing levels on homeowners business. Underwriting guidelines require a risk that has been previously cancelled or non-renewed to be placed in the highest priced level. This practice may result in a risk being charged the highest rates although the risk would otherwise meet the criteria for a lower priced tier. The result is that similar risks may be treated dissimilarly, in violation of the unfair rate provisions of the insurance code. In addition, SGIC eligibility guidelines prohibit risks that have been declined by the California Fair Plan Association. No insurer may base an adverse decision in whole or in part on the fact of a previous adverse decision. CIC Sections 791.12(a) and 1861.05 (a)	Document current underwriting guidelines. Select fifty (50) files (25 declinations/25 highest risk tier) underwritten with prior cancellation. Confirm whether risks are being evaluated solely based on ASIC and SGIC underwriting guidelines.	
8.	The examination found that ARIC ordered credit reports that included credit scores on new business. The examination found one declination notification which included the credit score as one of the reasons that the risk was not eligible for coverage. The examination did not find specific underwriting guidelines as to when credit scores or credit reports were to be ordered or as to which elements of the report were to be used to determine acceptability. Without specific guidelines, the Department could not determine whether similar risks were being treated similarly. Because the components of the credit score are proprietary to the company providing the score, the Department cannot	Randomly select fifty (50) ARIC new business files. Confirm whether risks are being evaluated solely based on established underwriting guidelines. Establish whether credit reports, if used, are used in accordance with underwriting guidelines and applicable federal and California law.	

	CRITICISMS	AUDIT PLAN	RESULTS
	determine whether the components of the score have a substantial relationship to the risk of loss. In addition, ARIC has not filed information showing individual credit history factors' substantial relationship to the insured's loss exposure. Therefore the Department cannot determine whether the use of credit scores or elements of an individual credit history are in compliance with the law. CIC Section 1861.05 (a) and CCR Sections 2360.0 (b) and 2360.2		
9.	ARIC did not include a disclosure on its homeowner declarations page advising the insured that the policy did not include building code upgrade coverage. ASIC and SGIC dwelling fire and homeowners policies include coverage for building upgrade, but the Companies do not include the limit of liability for this coverage on the declarations page or in an attached disclosure form. These practices fail to comply with requirements of the Insurance Code. CIC Sections 10103 (a) and 10103 (b)	Select fifty (50) random files (25 ARIC, 25 ASIC/SGIC). Confirm ARIC's disclosure of the building code upgrade exclusion on its declarations page and ASIC, SGIC declarations page disclosure of liability limits.	
10.	The examination found that ASIC and SGIC did not provide to homeowner and dwelling fire insureds the Residential Property Insurance Disclosures statement as required by California Insurance Code. Sixteen ARIC non-rating errors resulted form incomplete Residential Property Insurance Disclosure statements.	Select fifty (50) random files (25 ARIC, 25 ASIC/SGIC). Confirm the residential property insurance disclosure statement was provided and complete with each	

	CRITICISMS	AUDIT PLAN	RESULTS
	CIC Sections 10101, 10102(a), and 10102(d)	file.	
11.	The standard deductible on ARIC homeowner policies is $250. The underwriting and rating guidelines require a minimum deductible of $500 if the insured has had a loss in the past 36 months. If this higher deductible is required due to losses, the rule indicates that the deductible credit for the higher deductible does not apply. In addition, the rating rules include a surcharge based on past losses. While the minimum deductible for a past loss is $500, the examination found risks with a past loss with deductibles other than $500. Three deductible options ($500, $1000, and $2500) other than $250 each with a different credit factor are available. Whether the company or the insured selects the higher deductible, no deductible credit is applied if there was a prior loss. The result is that similar risks with a prior loss but different deductibles are priced the same. In addition to the increase in price as a result of not applying the deductible credit, risks are surcharged based on the experience surcharge program. The result of these two practices may result in similar risks being treated dissimilarly and in the application of excessive rates, in violation of California Insurance Code. CIC Section 1861.05 (a)	Identify all insured with a loss within last 36 months. Randomly select fifty (50) files and confirm each insured received the appropriate deductible credit upon renewal.	
12.	ASIC offers various discounts on its homeowner business primarily for various protective safeguards. ARIC also offers various protective	Select fifty (50) random files (25 ASIC, 25 ARIC) and confirm the	

	CRITICISMS	AUDIT PLAN	RESULTS
	safeguard discounts to homeowners and manor program insureds. The examination found that ARIC and ASIC do not periodically update underwriting information in order to update homeowner pricing. The failure to update underwriting information may result similar risks being treated dissimilarly or in an insured not receiving the lowest premium for which he qualifies. CIC Section 1861.05 (a) and CCR Sections 2360.3 and 2360.4	mailing of the renewal questionnaire/notice of available discounts. For returned questionnaires/information requests, manually rate policies to confirm any applicable discounts are being applied.	
13.	Because of a system error, the offer of earthquake coverage to ARIC homeowner insureds did not include the rate or premium. CIC Sections 10081 and 10086 (b)	Select fifty (50) random files (25 new policy, 25 renewals) to confirm that earthquake coverage was offered (including premium information) upon new policy issuance and renewals (every other year).	
14.	ASIC and ARIC include a maximum cap on the discounts applied to homeowner business. Discounts are based on objective criteria as opposed to judgment and homeowner risks are homogenous and class rated. The discount developed for each characteristic should be extended to any insured that qualifies for a discount based on the risk characteristics he or she possesses. By capping a discount, individuals who	Select fifty (50) random files (25 ASIC and 25 ARIC) with multiple credits. Confirm insures received all credits they were eligible for.	

	CRITICISMS	AUDIT PLAN	RESULTS
	have identical risk characteristics may not receive the same quantity of discount. CCR Section 1861.05(a)		
15.	Four of the termination errors resulted from a less than 5 day notice of cancellation for non-payment of premium on ASIC and SGIC dwelling and homeowner policies. Ten ARIC cancellation errors resulted from the cancellation of policies after the 60 day underwriting period for reasons other than those reasons permitted by the insurance code. In addition, on risks properly cancelled after the 60 day underwriting period, ARIC failed to include a statement explaining the insured's right to request information about the reasons for cancellation on the cancellation notice. CIC Section 676, 677, 2071, and 2074.8	Select twenty-five (25) files cancelled for non-payment. Confirm adequate notice given on each policy. Select twenty-five (25) files cancelled by the company after the sixty day underwriting period for any reason other than non-payment. Confirm all cancellations done in accordance with the insurance code.	
16.	One rating error and twenty three non-rating errors on ARIC homeowner, dwelling fire, and mobile home business resulted from incorrect protection classes. While not affecting the current premiums charged, the use of incorrect protection classes may result in the development of excessive or inadequate rates in future rate filings. CIC Sections 1861.05(a)	Select twenty-five (25) random ARIC files and verity protection classes.	

	CRITICISMS	AUDIT PLAN	RESULTS
17.	The ABIC mobile homeowner, ASIC and SGIC dwelling fire, homeowner, and earthquake, and ARIC homeowner underwriting guidelines required a request from the insured before a return premium of $5 or less would be made. CIC Sections 481.5 (a) and 481.5 (c)	Provide a list of 2007 insureds who received premium refunds. Confirm returned premium amounts under $5 are automatically sent.	
18.	The examination found that wireless phone companies and vendors of these wireless phone service companies offer insurance on cell phones and accessories written by VPCIC. The examination found that these phone companies and vendors do not have an agent, broker, or communication equipment vendor's insurance license. The phone companies and vendors advise the customer of the availability of the insurance, provide evidence of insurance to the customer and the phone company bills the customer for the insurance. California law requires that communications equipment vendors who sell or offer insurance must have a communication equipment agent license if they do not have an agent or brokers license. The insurance code requires that the licensed communication equipment vendor must be appointed by the insurance carrier. VPCIC was offering coverage through unlicensed, non-appointed vendors. The employees of the licensed communication vendors that offer the insurance must be trained by a licensed broker and the training material must be filed with the Department. This training had not been provided nor has training material been filed.	Verify licensing status of all vendors selling handset insurance and provide documentation of licensing and appointments.	

	CRITICISMS	AUDIT PLAN	RESULTS
	CIC Sections 1758.6, 1758.62(a)(2), and 1758.63		
19	The wireless program is written on master policies. Customers of the wireless phone companies who elect coverage are provided a brochure or "summary of coverage" that summarizes the coverage and provides information on how to file a claim. This brochure is provided in lieu of a certificate of insurance. The insurance code requires a communications equipment agent to provide disclosures which must be acknowledged in writing by the customer or displayed by clear or conspicuous signs at the sales location. In addition, a communications agent may not sell insurance by telephone sales calls without providing a brochure at the time of the sale or reasonably thereafter that includes the disclosures outlined in the insurance code. The examination found that the phone companies and vendors were not in compliance with the disclosure requirements of the law. In addition, the examination found that the brochure of one master policy included incorrect limits of coverage. The insurance code also requires the insurer to file with the Department a copy of any policy or group certificate issued to an organization licensed as a communications equipment insurance agent. The brochure or "summary of coverage" which is provided to the insured as evidence of coverage had not been filed. CIC Section 381 and 1758.66(a), 1758.66(b), 1758.66(c) and 1758.68	Conduct a review of all form filings and advertising for the wireless phone program. Establish whether all appropriate filings are complete and whether all appropriate disclosures have been made to customers. Document results.	

	CRITICISMS	AUDIT PLAN	RESULTS
20.	Eight non-rating errors in the wireless phone program review resulted from the lack of applications, enrollment forms, or documentation of phone requests for coverage. The phone service agreement for one master policyholder contains an area in which the customer acknowledges receiving information on the insurance. This information includes the "summary of coverage" brochure. The other phone company's agreement did not contain such an acknowledgement. While some insureds may have received the "summary of brochure" at the time of the purchase of the phone service, the examination found no evidence that a copy of this "summary of coverage" was provided to insured's who elected the insurance coverage after the initial phone service purchase or activation. CIC Sections 381 and 1857 and CCR Sections 2360.6 and 2149.6	Randomly select fifty (50) files for enrollments during 2007. Confirm retention of complete applications, enrollment forms and acknowledgement of the receipt of summary of coverage information.	
21.	The review of single premium credit insurance certificates issued by one master policyholder showed that a 10 day free look disclosure notice was being used rather than the insurance code's required 30 day free look requirement. In addition, the required disclosure of the Department's consumer affairs unit was not provided on these certificates. CIC Sections 510 and 779.14 (b)	Verify implementation of revised insurance certificate. Perform data runs to confirm that billing practices conform insurance code requirements.	

	CRITICISMS	AUDIT PLAN	RESULTS
22.	The examination found a general trend of incomplete statements of insurance (insurance applications and requests for insurance) on installment sales floaters written by ABIC. A total of 242 non-rating errors resulted from the lack of applications (statement of insurance) or incomplete or incorrectly completed applications for monthly outstanding balance credit or single premium credit insurance certificates issued by VLIC, USLIC, ABLAC, ABIC, and ARIC. CIC Section 1857, 10508, and 10508.5 and CCR Section 2360.6	Select two (2) batches per client and request full documentation on all insureds within the batch. Document all missing files, applications or any incomplete information including signatures, dates and affirmations.	
23.	The examination found a general trend in which ABIC installment sales statement of insurance (application of insurance) were incomplete or incorrect. In addition, the examination found no statement of insurance or applications for 157 monthly outstanding balance (MOB) and single premium certificates issued by ABLAC, VLIC, USLIC, ABIC, and ARIC. In addition, 75 non-rating errors on certificates issued by ABLAC, ABIC, and ARIC resulted from incomplete or unsigned statements of insurance. CIC Sections 1857, 10805 and 10805 and CCR Section 2360.0	Inventory current client list. Select fifteen (15) files per client. Confirm whether each file is complete and correct.	
24.	The examination found an error in the method of calculation of the earned premium on cancellations of certificates under two single premium credit	Inventory all current clients writing credit insurance. Sample	

	CRITICISMS	AUDIT PLAN	RESULTS
	insurance master policies issued by ABLAC and ARIC. In some cases the rule of 78's (78 percent of the premium is earned in the first half of the coverage term) was used instead of the proper short rate method. CIC Section 1861.05 (a)	cancellations for each client to determine if refunds are being calculated and issued properly.	
25.	The examination found nineteen certificates with the incorrect limits of coverage on installment sales floaters issued by ABIC. The examination found twenty-one certificates of coverage with errors including incorrect policy terms and the inclusion of incorrect benefit amounts on monthly outstanding balance and single premium credit insurance written by ABLAC, ABIC, and ARIC. Certificates of coverage were not available on two credit master policies written by ABLAC, ABIC, and ARIC. As a result, the Department was not able to determine whether the correct coverage, form, or delivery was made. CIC Sections 381, 779.6 and 779.7 and CCR 2248.7	Inventory current active installment sales floater master policyholders. Select ten (10) random files for each master policy. Confirm that an accurate certificate and schedule page was generated for each insured.	
26.	The examination found that ABLAC, VLIC, and USLIC had not filed a certificate of compliance with California laws on life advertising as required by regulation.	Confirm proper certificates of compliance have been filed.	
27.	High non-rating error ratios, in excess of 10% for personal lines and commercial lines, were noted in the review of homeowners (29.3%), inland marine	Review audit results from items 1-26. Establish corrective	

	CRITICISMS	AUDIT PLAN	RESULTS
	(16.1%), MOB credit insurance (45.9%) and single premium credit insurance (19.0%). This is considered evidence of an unfairly discriminatory rating practice and/or lack of documentation. CIC Sections 1857, 10508, and 1861.05(a) and CCR Section 2360.6	action program for any remaining areas of non-compliance.	